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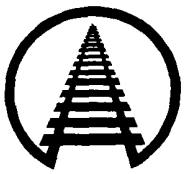

ASSOCIATION
OF AMERICAN
RAILROADS

Craig F. Rockey
Vice President - Policy & Economics

June 6, 2005

The Honorable Vernon A. Williams
Secretary
Surface Transportation Board, Room 711
1925 K Street, N.W.
Washington, DC 20423-0001

Dear Mr. Williams:

This submission is the AAR forecast of the third quarter 2005 All-Inclusive Index and Rail Cost Adjustment Factor, filed in Ex Parte No. 290 (Sub-No. 5) (2005-3), *Quarterly Rail Cost Adjustment Factor.* The versions of RCAF-related indices covered in this filing are: the All-Inclusive Index (initiated in the second quarter 1985), the Unadjusted RCAF (produced since October 1982), the Adjusted RCAF (first published in the second quarter of 1989), and the RCAF-5 (created by the STB in its Ex Parte No. 290 (Sub-No. 7) decision served October 3, 1996). The table below summarizes the third quarter 2005 results on the fourth quarter 2002 base, and shows the percentage changes from the previous quarter.

	2005Q2	2005Q3	% Change
All-Inclusive Index	111.9	113.0	1.0
Preliminary RCAF	1.119	1.130	1.0
Forecast Error Adjustment	0.030	0.006	
RCAF (Unadjusted)	1.149	1.136	-1.1
Productivity Adjustment Factor	2.0420	2.0567	
RCAF (Adjusted)	0.563	0.552	-2.0
PAF-5	2.1380	2.1498	
RCAF-5	0.537	0.528	-1.7

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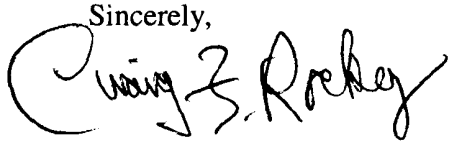
In its October 3, 1996 decision in Ex Parte No. 290 (Sub-No. 7), *Productivity Adjustment - Implementation,* the STB noted its intent to publish, in addition to the RCAF (Unadjusted) and RCAF (Adjusted), an RCAF-5 (i.e., a calculation of the productivity adjusted RCAF values as if the agency had always used a 5-year rolling average to calculate the productivity adjustment). In response to a request by STB staff, the AAR is including a calculation of the RCAF-5 in its quarterly RCAF filing. The AAR and its members, however, do not believe the publication of a third RCAF index is required or permitted by the applicable statute (49 U.S.C. § 10708) and do not endorse its publication.

Two copies of the quarterly non-proprietary workpapers underlying this submission are filed herewith, in accordance with the ICC's order in Ex Parte No. 290 (Sub-No. 2), *Railroad Cost Recovery Procedures,* served February 8, 1990. A third copy of the working papers has been delivered to Jeff Warren in the STB office handling this proceeding. All workpapers are available for STB inspection. Questions should be directed to me or Clyde Crimmel (202 639-2309) of this office.

Sincerely,



Craig F. Rockey

Attachments

Third Quarter 2005
All-Inclusive Index

Ex Parte No. 290 (Sub-No. 5) (2005-3)

Quarterly Rail Cost Adjustment Factor
Surface Transportation Board

Policy and Economics Department
Association of American Railroads

June 6, 2005

Table of Contents

Introduction

On January 2, 1985, the Interstate Commerce Commission (ICC) [now the Surface Transportation Board (STB)] adopted the All-Inclusive Index of Railroad costs as the basis for the Rail Cost Adjustment Factor (RCAF). The quarterly projection of railroad costs, as documented herein, employs the All-Inclusive Index as required by the regulations. Also presented in this submission is the RCAF, both Adjusted and Unadjusted, as required by the ICC in its decision in Ex Parte No. 290 (Sub-No. 4), *Rail Cost Recovery Procedures - Productivity Adjustment,* served March 24, 1989. In addition, the AAR has included (but does not endorse) the RCAF-5, which was instituted by an STB decision served October 3, 1996 in Ex Parte No. 290 (Sub-No. 7), *Productivity Adjustment - Implementation.* This quarter's projection of railroad costs is for the third quarter of 2005.

Index Weights

In the Ex Parte No. 290 (Sub-No. 2) final rules, issued in April 1981, the Interstate Commerce Commission mandated that the weights of each major cost component be updated annually. These "external" weights are calculated using data from Schedules 410 and 210 of the R-1 annual report filed with the Surface Transportation Board by the Class I railroads. The weights are typically updated with the fourth quarter projection.

The previous (2002) weights were used for the fourth quarter of 2003 through the third quarter of 2004. Beginning with the fourth quarter of 2004, the 2003 weights are used. The biggest change in the weights was for Fuel, which increased by 1.6 percentage points, close to its weight based on 2001 data. The Other component increased again, this time by 0.7 percentage points. The remaining changes were decreases of less than one percentage point. The 2003 (current) and 2002 (previous) weights are shown below.

RCAF Weights

	Previous 2002	Current 2003
Labor	38.0 %	37.5 %
Fuel	9.0	10.6
Materials & Supplies	4.6	4.4
Equipment Rents	10.3	9.4
Depreciation	10.9	10.7
Interest	3.7	3.2
Other	23.5	24.2

Reweighting of the index is accomplished by calculating both the current quarter (normally the fourth) and prior (normally the third) quarter indexes with the new weights. The relative change between the two quarters is then multiplied times the prior quarter (usually the third) *linked* index. Use of this method ensures that the weight change, by itself, does not cause a change in the level of the All-Inclusive Index.

Internal weights in the labor and equipment rents components are updated at the same time as the external weights. When these weights are changed, they are also linked using the procedure described above in order to eliminate the effect of the change in weighting.

All-Inclusive Index
Third Quarter 2005

The components and values of the current and previous All-Inclusive Indexes are shown below. Details of the construction of each component of the index are contained in the Appendices.

	2003 Weights	Forecast Previous 2005Q2	Forecast Current 2005Q3	Percent Change
1. Labor	37.5%	289.5	291.1	0.6 %
2. Fuel	10.6%	186.9	193.6	3.6
3. M&S	4.4%	176.4	179.8	1.9
4. Equipment Rents	9.4%	182.4	182.8	0.2
5. Depreciation	10.7%	176.3	180.3	2.3
6. Interest	3.2%	90.2	90.2	0.0
7. Other	24.2%	178.9	179.5	0.3
8. Weighted Average				
a. 1980 = 100		218.3	220.4	
b. 1980 = 100 (linked)		214.9	217.0 [1]	
c. 4Q02 = 100		111.9	113.0 [2]	1.0

---

[1] To calculate the 1980 = 100 Linked Index:
Index80 = (Current Index / Previous Index) * the Previous Quarter Linked Index
= 220.4 divided by 218.3 times 214.9
= 217.0

[2] To calculate the 4Q02 = 100 index:
Index4Q02 = (Current Linked Index / 4Q02 Linking Factor) * 100
= 217.0 divided by 192.1 times 100
= 113.0

4Q97 based index = 125.3
4Q92 based index = 138.3
4Q87 based index = 164.1

Forecast vs. Actual All-Inclusive Index
First Quarter 2005

As shown below, the first quarter actual index of 110.3 is 0.6 index points above the forecast value of 109.7. Therefore, the forecast error adjustment for the third quarter 2005 is 0.6 index points.

	2003 Weights	First Quarter 2005 Forecast	First Quarter 2005 Actual	Amt Difference
1. Labor	37.5%	290.3	290.3	
2. Fuel	10.6%	171.5	161.8	
3. M&S	4.4%	165.2	165.2	
4. Equipment Rents[1]	9.4%	179.9	179.9	
5. Depreciation	10.7%	161.3	171.7	
6. Interest	3.2%	90.2	90.2	
7. Other	24.2%	176.3	176.0	
8. Weighted Average				
a. 1980 = 100		214.0	214.0	
b. 1980 = 100 (linked)		210.7	211.9 [2]	
c. 4Q02 = 100[3]		109.7	110.3	0.6

Forecast error ⟶ 0.6 index points

---

[1]

	2003 Weights	First Quarter 2005 Forecast	First Quarter 2005 Actual
Car-Hire	50.1%	172.7	172.3
Lease Rentals	49.9%	176.3	176.0
Weighted Average		174.5	174.1
Weighted Average (linked)		179.9	179.9

[2] Linked actual index = (actual index / previous actual index) x previous linked actual index.

211.9 = 214.0 / 214.3 x 212.2

[3] The 4Q02 based indexes are 1980 based indexes divided by the 4Q02 linking factor (192.1/100).
4Q97 based indexes are the 1980 based indexes divided by the 4Q97 linking factor (173.2/100).
4Q92 based indexes are the 1980 based indexes divided by the 4Q92 linking factor (156.9/100).

Productivity

On February 18, 2005, the Surface Transportation Board (STB) served a decision in Ex Parte 290 (Sub-No. 4) which added the year 2003 to the Productivity Adjustment Factor (PAF) and deleted the year 1998. This creates an average annual productivity for 1999 through 2003 of 2.9 percent – an increase from the 1998 through 2002 average of 2.2 percent. The components of this average annual value are shown on the following table. Productivity changes are calculated by dividing the output index by the input index. The average annual rate is calculated by multiplying each of the five productivity changes together and taking the result to the one fifth power. The quarterly productivity adjustment factors (PAF) are calculated by increasing the previous quarter's PAF by quarterly versions of the annual rate which are the fourth root of the average annual growth rate. The difference between the PAF and the PAF-5 is the timing of the 5-year productivity trend.

Comparison of Output, Input, & Productivity
1999 - 2003

Year	Output Index (1)	Input Index (2)	Productivity[1] Changes (3)
1999	1.032	1.008	1.024
2000	1.029	0.953	1.079
2001	0.971	0.955	1.016
2002	1.012	1.006	1.006
2003	1.039	1.020	1.019
Average			1.029
Previous Average (1998-2002)			1.022

[1] The values shown in Column 3 are based on full float calculations and may not exactly match numbers calculated using the rounded numbers displayed in Columns 1 and 2.

Calculation of PAF and PAF-5

For 1999-2003 use fourth root of avg. productivity change 1.0072
For 1998-2002 use fourth root of previous avg. change 1.0055

Quarter	Year	PAF	PAF-5	
Q1	2005	2.0274	2.1263	1998-2002
Q2	2005	2.0420	2.1380	
Q3	2005	2.0567	2.1498	1999-2003
Q4	2005	2.0715	2.1616	
Q1	2006	2.0864	2.1772	

Rail Cost Adjustment Factor
Third Quarter 2005

Four RCAF values are presented in this filing. Two of the indexes, the All-Inclusive Index and the Unadjusted RCAF, are not modified for productivity, while the Adjusted RCAF and the RCAF-5 incorporate a productivity calculation. The All-Inclusive Index and all four RCAF values, plus the percent change for each, are shown below.

	Previous 2005Q2	Current 2005Q3	Percent Change
All-Inclusive Index[1]	111.9	113.0	1.0
Preliminary RCAF[2]	1.119	1.130	1.0
Forecast Error Adjustment[3]	0.030	0.006	
RCAF (Unadjusted)[4]	1.149	1.136	-1.1
Productivity Adjustment Factor[5]	2.0420	2.0567	
RCAF (Adjusted)[6]	0.563	0.552	-2.0
PAF-5[7]	2.1380	2.1498	
RCAF-5[8]	0.537	0.528	-1.7

[1] See All-Inclusive Index on page 3.
[2] All-Inclusive Index divided by the All-Inclusive Index in the base period (100.0).
[3] The current figure is from Forecast vs. Actual All-Inclusive Index in this filing (page 4). The previous quarter figure is shown in a similar section of the previous quarter's filing.
[4] Preliminary RCAF plus the forecast error adjustment.
[5] See Productivity on page 5.
[6] RCAF (Unadjusted) divided by the Productivity Adjustment Factor (PAF).
[7] See Productivity on page 5.
[8] RCAF (Unadjusted) divided by the PAF-5.

Appendixes

Labor
Third Quarter 2005

The third quarter 2005 Labor Index is forecast to increase 0.6 percent. The addition of a 15 cent cost-of-living allowance (COLA), effective July 1 for most unions, caused much of the increase. In addition, a new profit-sharing program also contributed to the higher rate.

Wage Index

The Wage Index portion of the Labor Index is forecast to rise 1.1 percent. In addition to a COLA and a new profit-sharing program, new national contracts for the National Conference of Fireman and Oilers (NCFO) and the Sheet Metal Workers' International Association (SMW) helped increase the Index. (Appendix H lists the abbreviations for railroads and unions used in the text below.)

New National Agreements: Two national agreements were added to the Wage Index. The two unions involved, the NCFO and the SMW, account for about two percent of the Class I railroad employees. Both contracts were signed on April 4, 2005. Both had similar provisions, and featured retro-active general wage increases of 2.5, 3.5, 3.0 and 3.25 percent. The 2.5 percent increase is effective June 30, 2002. The remaining increases were effective on July 1 of 2002, 2003, and 2004. A cost-of-living allowance of 27 cents was rolled into the wage rate effective October 1, 2001, and all cost-of-living allowances were discontinued effective June 30, 2002. New cost-of-living allowances can be added to the wage rate effective July 1, 2005. In addition, provisions were made for employee health & welfare cost sharing – including retro-active amounts offset against back pay.

Wage Increases: All national-contract unions, except the BRS and BMWED, will receive 15 cent COLA increases effective July 1. The IAM receives its COLA increase as part of its 1996 agreement, while the other unions will have the COLA rolled into their wage rate as part of the 2001+ national agreements. The signalmen (BRS) elected not to have a COLA provision in their contract. The BMWED will receive a July 1 cost-of-living wage adjustment of 11 cents, which includes a reduction for health & welfare cost increases. In the addition to the national wage increases, independent increases were added for most SOO and IC unions, dispatchers for four railroads, yardmasters for two railroads, and one railroad's independent BLET employees.

Lump Sums: The lump sum rate decreased by 0.003 cents, as two lump sums related to new dispatcher contracts were fully amortized and removed. One small lump sum was added for a new independent yardmaster contract's signing bonus.

Back Pay: The back pay rate increased by 2.4 cents despite the complete amortization and removal of back pay amounts for four independent agreements that were new about one year ago. Back pay amounts were added for the new national NCFO and SMW agreements, plus a new independent agreement. In all cases, retro-active employee health & welfare contributions were deducted from the back pay caused by retro-active wage increases.

Labor
Third Quarter 2005

Other: This component increased by 11 cents from the previous quarter. In the prior quarter, this figure contained the amortization of a profit sharing payment that the BNSF made to its dispatchers, yardmasters, and the former ATSF portion of its locomotive engineers in early 2004 for performance in 2003. For the third quarter, the previous profit sharing payment has been completely amortized, removed, and replaced with a new profit sharing payment. The new profit sharing payment, paid in early 2005 for performance in 2004, includes former BN locomotive engineers in addition to the employees rewarded in the previous year – which caused a significant increase in the total payout.

Supplements Index

The Supplements Index is forecast to decrease 0.1 percent from the second quarter filing. This decrease was the result of lower employer contributions to employee 401(k) and stock plans.

Health & Welfare: The Health & Welfare hourly rate decreased by 0.001 cents from the second quarter level. The small change was caused by the addition of three labor agreements that instituted employee health & welfare cost sharing. The number of employees affected by these new agreements is small when compared to total Class I railroad employees. Most national agreements call for an increase in the employee health & welfare cost sharing rate effective July 1. However, at the time of this filing those new rates were not available, and June rates were used.

Railroad Retirement: The Railroad Retirement and Medicare hourly rate increased slightly because of higher taxable wages.

Unemployment Insurance: The Unemployment Insurance rate was unchanged for the third quarter.

Other: The "Other" category is a reflection of all other fringe benefits, and currently contains employer contributions to employee 401(k) accounts and employee stock ownership plans. The second quarter figure contained a railroad's annual contribution to an employee stock ownership plan in addition to the regular quarterly 401(k) matches. The third quarter contains annual 401(k) "bonus" matches by two other railroads, but does not include the huge employee stock contribution captured in the second quarter. Because of the timing of these annual matches, the third quarter Other Supplements rate is 5.7 cents below the second quarter rate, but 2.4 cents higher than the first quarter rate.

Labor Index Calculation

As shown in table A-1 on the next page, the 1.1 percent increase in the Wage Index and the 0.1 percent decrease in the Supplements Index had a combined effect of a 0.6 percent increase in the Labor Index. The linked third quarter 2005 Labor Index is 291.1.

Labor

Third Quarter 2005

Table A-1 Labor Index

	2005Q2	2005Q3	Change Percent	Change Amount
Base Wage – Straight Time & Pay For Time Not Worked	$29.242	$29.416	0.6%	$0.174
Adjustments:				
Lump Sum	0.140	0.137	-2.1%	-0.003
Back Pay	0.091	0.115	26.4%	0.024
Other	0.014	0.124	785.7%	0.110
Total Wages	29.487	29.792	1.0%	0.305
Health & Welfare Benefits	5.116	5.115	0.0%	-0.001
RR Retirement & Medicare	6.097	6.140	0.7%	0.043
Unemployment Insurance	0.164	0.164	0.0%	0.000
Other	0.103	0.046	-55.3%	-0.057
Total Supplements	$11.480	$11.465	-0.1%	-0.015
Total Labor	$40.967	$41.257		
Wage Index[1]	252.3	255.0	1.1%	
Supplements Index[2]	424.2	423.7	-0.1%	
Total labor Index, 2003 Weights[3]	302.7	304.4		
Labor Index (linked)[4]	**289.5**	**291.1**	0.6%	

[1] 1980 wage rate $11.685

[2] 1980 supplements rate $2.706

[3] 2003 weights: wages, supplements 70.7% 29.3%

[4] 2005Q3 linked Index = $2005Q2_{linked}$ x (2005Q3 / 2005Q2)

= 289.5 x 304.4 / 302.7

Fuel
Third Quarter 2005

The forecast for fuel is based on: (1) a survey of railroad fuel purchasing officers concerning current price and volume levels, (2) expectations of railroad purchasing officers based on their own forecast models and discussions with their major suppliers, and (3) a consensus of petroleum industry experts and general business publications.

Crude oil* prices broke October's record during March and April (exceeding $58 per barrel), trended downward until mid-May, and then began increasing again. Prices as of early June 3 rose above $54 per barrel. In general, world crude oil prices have been high because of strong demand resulting from economic growth in China and the United States. In addition, concerns about the supply of crude oil and refined products have also boosted oil prices. In the United States, refiners ran at 96 percent capacity in the last week of May, yet supplies of distillate** fuels remained below average.

Railroad monthly fuel prices also broke October's record in March and April, and the April average is 53 percent higher than it was one year ago. The railroads believe that their average third quarter (July) 2005 fuel price will be 5.2 percent *below* the record prices they paid in April. Because the forecast for second quarter fuel prices was too low, the expected third quarter average is 3.6 percent *higher* than the previous quarter's forecast.

Forecast fuel index	193.6
Change from previous quarter forecast	3.6%
Change from previous quarter actual	-5.2%

* Diesel fuel used by locomotives is made from refined crude oil, and therefore has some price change correlation.

** Distillate fuels include a group of closely related products (such as locomotive diesel fuel, the diesel fuel used by trucks, and heating oil) that differ mostly by their sulfur content. Because of these similarities, distillate fuels are produced together.

Materials & Supplies

Third Quarter 2005

The Materials & Supplies Index increased 1.9 percent from the second quarter of 2005. Metal prices, which had been increasing significantly, increased by one percent. Ballast and locomotive lubricant oil were major contributors to the increase in the Index. The ballast price increase was related to regional purchases, while the increase in locomotive lube oil prices was related to the general trend of higher prices for crude oil.

2005Q3	Materials & Supplies Index =	179.8
2005Q2	Materials & Supplies Index =	176.4
	Difference	3.4 basis points or 1.9 %

Equipment Rents
Third Quarter 2005

The equipment rents index consists of two components – car hire and lease rentals. The methodology used to create these two components and the final equipment rents index are explained below.

Car Hire

The car hire component is indexed using data from the Car Hire Accounting Rate Master (CHARM) file. Car hire rates for the forecast quarter are estimated based on data for the most recent month available. For the first quarter, December 1 of the previous year is used. For the second, third and fourth quarters; March 1, June 1, and September 1 are used, respectively. Using data retrieved from the latest CHARM file, an average rate per car is developed. Next, those average rates are grouped into car type categories to create an overall summary of car hire rates. The summary rates are then compared from quarter to quarter to determine the car hire index.

Lease Rentals

The lease rental portion of the equipment rents index uses the Producer Price Index for Industrial Commodities less Fuel and Related Products and Power (PPI-LF). The Commission adopted this surrogate in its decision served March 13, 1987. The AAR uses six years of historical data to derive its forecast for the PPI-LF. The forecast is used not only for lease rentals, but also for the "Other" component of the All-Inclusive Index. Appendix G discusses the forecast in more detail.

Equipment Rent Index Calculation

The table below calculates the Equipment Rent Index, which increased 0.2 percent. The 0.1 percent increase in the Car Hire portion of the Index was caused by higher rates for privately-owned tank cars.

	2003 Weight	2005Q2	2005Q3	Percent Change
Car Hire	50.1%	174.9	175.1	0.1 %
Lease Rentals	49.9%	178.9	179.5	0.3
Weighted Average		176.9	177.3	0.2
Weighted Average (Linked)		182.4	182.8	0.2

Depreciation
Third Quarter 2005

The Producer Price Index for Railroad Equipment (PPI-RE) is used to index depreciation expense. The PPI-RE is forecast using an ARIMA process on 6 years of monthly data (a sample size of 72) with the most recent available monthly data being the first month of the quarter prior to the forecast quarter. For a first quarter forecast, the most recent month of data available would be for October of the prior year. For a second quarter forecast, January would normally be the most recent monthly data available. April and July would be the most recent months available for third and fourth quarter forecasts, respectively. The output from the forecast model is shown on page 2 of this appendix for 1982=100. The figure forecast by the model reflects monthly PPI-RE figures that have been increasing at much higher rates than earlier years. The April 2005 PPI-RE is 10 percent higher than April 2004, which is 5 percent higher than April 2003. For the five years prior to April 2003, all of the April to April increases were less than 1 percent. Rising steel prices may be impacting this index.

Forecasted depreciation index (1982=100)	163.0
Forecasted depreciation index (1980=100)	180.3
Change from previous quarter forecast	2.3%
Change from actual first month of previous quarter	3.5%
Change from same quarter of prior year (actual)	12.5%

Depreciation
Third Quarter 2005

PPI RAIL EQUIPMENT

Forecast Model for PPIRE
Holt exponential smoothing: Linear trend, No seasonality
Confidence limits proportional to level

Component	Smoothing Weight	Final Value
Level	1.00000	157.50
Trend	0.16195	1.3656

Within-Sample Statistics

Sample size 72	Number of parameters 2
Mean 138	Standard deviation 5.575
R-square 0.977	Adjusted R-square 0.9766
Durbin-Watson 1.867	Ljung-Box(18)=19.75 P=0.6527
Forecast error 0.8523	BIC 0.8918
MAPE 0.00303	RMSE 0.8404
MAD 0.4318	

Actual Values for the Most Recent 6 Periods:

Date	Actual
2004-11	147.000
2004-12	153.200
2005-01	153.400
2005-02	154.900
2005-03	157.200
2005-04	157.500

Forecasted Values

Date	2.5 Lower	Forecast	97.5 Upper
2005-05	157.012	158.866	160.720
2005-06	157.389	160.231	163.073
2005-07	158.031	161.597	165.163
2005-08	158.796	162.963	167.129
2005-09	159.638	164.328	169.019
QTR AVG	**158.822**	**162.963**	**167.104**
2005-10	160.532	165.694	170.855
2005-11	161.466	167.059	172.652
2005-12	162.432	168.425	174.419

Interest
Third Quarter 2005

The Interstate Commerce Commission, in its decision served February 28, 1989, revised the All-Inclusive Index methodology to include a specific interest component, which is to track changes in the average interest rate from year to year. The interest rate is essentially the embedded cost of debt, i.e., total interest expense divided by average total long term debt. The interest rate is calculated for the most recent year and used until the next year's figures are available. Typically in the fourth quarter filing, the interest rate is updated to the new level. The source for interest expense is Schedule 210, column b, from the R-1 annual report. The lines used from current R-1 annual reports are listed below. The source for average total debt is Schedule 200 from the R-1 annual report. The sums of data from columns b and c (ending and beginning balances) are combined and divided by 2 to compute an average balance. The line numbers are listed below.

Interest Expense (Schedule 210)

Line	
42	Total Fixed Charges
44	Contingent Interest
less	
22	Release of Premium on Funded Debt

Average Total Debt (Schedule 200)

Line	
30	Current Loans and Notes Payable
39	Equipment Obligations and Other Long Term Debt Due Within One Year
41	Funded Debt Unmatured - Non-Current
42	Equipment Obligations - Non-Current
43	Capitalized Lease Obligatons - Non-Current
44	Debt in Default - Non-Current
45	Accounts Payable: Affiliated Companies - Non-Current
46	Unamortized Debt Premium - Non-Current

2003	Interest Rate	7.08%
1980	Interest Rate	7.85%
2005Q3	**Interest Index**	**90.2**
2005Q2	Interest Index	90.2
	Percent Change	0.0%

Other Expenses
Third Quarter 2005

The Producer Price Index for Industrial Commodities less Fuel and Related Products and Power (PPI-LF) is used to index purchased services, casualties and insurance, loss and damage, taxes (other than income and payroll), general and administrative expenses, and lease rentals. These expenses, when grouped together, are usually called "Other" expenses.

Like the PPI-RE, the PPI-LF is forecast using an ARIMA process on 6 years of monthly data (a sample size of 72) with the most recent available monthly data being the first month of the quarter prior to the forecast quarter. For a first quarter forecast, the most recent month of data available would be for October of the prior year. For a second quarter forecast, January would normally be the most recent monthly data available. April and July would be the most recent months available for third and fourth quarter forecasts respectively. The output from the forecast model is shown on page 2 of this appendix for 1982=100. The figure forecast by the model reflects monthly PPI-LF figures that have been increasing at lower rates than the rates for 2004.

Forecasted Other Expense (1982=100)	160.1
Forecasted Other Expense (1980=100)	179.5
Change from previous quarter forecast	0.3%
Change from actual first month of previous quarter	1.5%
Change from same quarter of prior year (actual)	4.9%

Other Expenses
Third Quarter 2005

PPI INDUSTRIAL COMMODITIES LESS FUEL AND RELATED PRODUCTS AND POWER

Forecast Model for PPILF
Multiplicative Winters: Linear trend, Multiplicative seasonality
Confidence limits proportional to indexes

Component	Smoothing Weight	Final Value
Level	0.89017	157.85
Trend	0.29484	0.55679
Seasonal	0.99925	

Seasonal Indexes

January - March	1.00008	0.99973	0.99967
April - June	0.99967	0.99978	1.00006
July - September	1.00011	1.00016	0.99972
October - December	1.00208	1.00027	0.99870

Within-Sample Statistics

Sample size 72	Number of parameters 3
Mean 145.1	Standard deviation 4.72
R-square 0.9962	Adjusted R-square 0.9961
Durbin-Watson 1.45	Ljung-Box(18)=21.51 P=0.7455
Forecast error 0.2942	BIC 0.3149
MAPE 0.001608	RMSE 0.288
MAD 0.2339	

Actual Values for the Most Recent 6 Periods:

Date	Actual
2004-11	155.000
2004-12	155.400
2005-01	156.500
2005-02	157.000
2005-03	157.400
2005-04	157.800

Forecasted Values

Date	2.5 Lower	Forecast	97.5 Upper
2005-05	157.757	158.374	158.991
2005-06	158.034	158.975	159.917
2005-07	158.360	159.540	160.720
2005-08	158.727	160.105	161.483
2005-09	159.041	160.591	162.142
QTR AVG	**158.709**	**160.079**	**161.448**

Railroad and Union Abbreviations
Third Quarter 2005

Railroads

ATSF	The Atchison, Topeka & Santa Fe Railway (Merged with Burlington Northern to form BNSF.)
BNSF	BNSF Railway Company
CC	Chicago, Central & Pacific (Part of CN's Grand Trunk Corp. Sometimes noted as CC&P.)
CN	Canadian National Railway (Commonly known as CN, owns Grand Trunk Corporation.)
CNGT	AAR's abbreviation for Grand Trunk Corporation (Most of CN's U.S. operations.)
CP	Canadian Pacific Railway (Also noted as CPR. Owns the U.S. Class I railroad Soo Line.)
CSX	CSX Transportation
DWP	Duluth, Winnipeg & Pacific Railway (Part of CN's Grand Trunk Corp.)
GTW	Grand Trunk Western Railroad (Part of CN's Grand Trunk Corp.)
IC	Illinois Central Railroad (Part of CN's Grand Trunk Corp.)
KCS	Kansas City Southern Railway
NS	Norfolk Southern Combined Railroad Subsidiaries (a.k.a. Norfolk Southern Railway or NS Rail)
SOO	Soo Line Railroad (Most of Canadian Pacific Railway's western U.S. operations.)
SSAM	Sault Saint Marie Bridge Company (Part of CN's Grand Trunk Corp.)
UP	Union Pacific Railroad
WC	Wisconsin Central and subsidiaries (Part of CN's Grand Trunk Corp.)

Major Unions Involved with Railroads

ATDA	American Train Dispatchers Association
BLET	Brotherhood of Locomotive Engineers and Trainmen Division of the International Brotherhood of Teamsters
BMWED	Brotherhood of Maintenance of Way Employees Division of the International Brotherhood of Teamsters
BRS	Brotherhood of Railroad Signalmen
IAM	International Association of Machinists and Aerospace Workers
IBBM	International Brotherhood of Boilermakers, Iron Ship Builders, Blacksmiths, Forgers & Helpers
IBEW	International Brotherhood of Electrical Workers
NCFO	National Conference of Firemen and Oilers
SMW	Sheet Metal Workers' International Association
TCU	Transportation Communication International Union
TCU-Carmen	Brotherhood of Railway Carmen Division of the Transportation Communications International Union
UTU	United Transportation Union
UTU-Yard	United Transportation Union Yardmaster Department (also noted as UTU-YMD)

Predecessor Unions (Some AAR databases use these old abbreviations.)

BLE	Brotherhood of Locomotive Engineers (predecessor to BLET)
BMWE	Brotherhood of Maintenance of Way Employees (predecessor to BMWED)
BRC	Brotherhood of Railway Carmen (predecessor to TCU-Carmen)
IBFO	International Brotherhood of Firemen and Oilers (predecessor to NCFO)